

Committee:	Executive	Agenda Item No.:	11
Date:	2 <sup>nd</sup> November 2009	Status	Open
Category	3. Part of the Budget and Policy Framework		
Subject:	Financial Management Performance – Quarter 2 in 2009/10		
Report by:	Director of Resources		
Other Officers Involved	Head of Finance and Revenues, Chief Accountant, Senior Accountancy Assistant, Head of Housing		
Director	Director of Resources		
Relevant Portfolio Holder	Leader of the Council		

## **RELEVANT CORPORATE AIMS**

STRATEGIC ORGANISATIONAL DEVELOPMENT – Continually improving our organisation. Monitoring of budgets evidences that professional standards are being maintained and are evidence that Corporate Aims are being achieved.

### **TARGETS**

The development of Policy Led Budgeting will help to inform future spending plans and assist in the delivery of efficiency gain targets that are monitored via National Indicator 179. In addition, the annual Use of Resources Assessment is supported by evidence of budget monitoring.

### **VALUE FOR MONEY**

The Budget Process challenges existing spending levels and new spending proposals to ensure that resources are effectively used and directed towards the delivery of the Corporate Aims.

## **Introduction**

1. This is the second report in 2009/10 that compares the current financial performance with the Budgets Members set in March 2009.
2. Throughout the period April to September these various budgets have been enabling officers to progress work to support the Council's Corporate Aims in 2009/10.

- This 6 month period reflects activities up to the end of the second quarter of the financial year, taking into account the update provided to Members at the end of the first quarter.

### **General Fund**

- Throughout the first 6 months officers have been monitoring financial activity against the approved income and expenditure budgets.
- The first 6 months activities of the Council have generated the following volume of financial transactions:

<b>Description of Financial Performance</b>	<b>£'000</b>
Payments to employees	5,922
Invoices paid	3,606
Fees and charges collected	(317)
Utility bills paid	163

- The table below compares the actual expenditure to the half year budget for the main categories of controllable expenditure.

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Employees	6,547	5,922	625
Premises	588	601	(13)
Transport	927	419	508
Supplies & Services	1,836	2,159	(323)
<b>Total</b>	<b>9,898</b>	<b>9,101</b>	<b>797</b>

This table therefore shows:

- Employees costs are underspend but this level of underspend will be addressed in part when the pay award is processed in October back to April. There should be an overall underspend as the budget was based on a higher percentage (see the paragraph later in the report).
- Premises expenses are exceeding the budget by just over 2%, Officers will closely monitor this during the second half year.
- Transport is over 50% underspent at this point, this will be taken into account when budgets are considered for 2010/11.
- Supplies and Services are overspent but certain aspects of this will relate to full year payments made early in the financial year.

7. The main variances in Quarter 2 to be reported to Members are listed below and detailed in Appendix 1:
- Kissington Leisure Centre - Due to the fire, income of £35,000 was accrued for in 2008/09. This was in respect of the insurance claim we were expecting for Business Interruption. The insurance company are now disputing this claim, and at this time it is unsure as to whether we will receive any of this income.
  - Planning Development, Planning Fees - The economic downturn is still affecting fees. No large planning developments, which bring in the higher revenue, are being undertaken.
  - Concessionary Fares - DCC are experiencing problems with receiving usage data from the bus operators. Based on available data DCC have now invoiced the Council for a part year.
  - Superannuation backfunding - The budget has not been revised since the percentages changed from 10.38% to 7.80%. The budget will be revised for the 2009/10 Outturn.
8. The budgets reflect an anticipated pay award to employees of 1.75% from 1<sup>st</sup> April 2009. The various unions have now agreed a settlement of the pay award that will be paid with back pay in October. The details of this pay award are such that most employees will receive a 1% increase from 1<sup>st</sup> April 2009, employees on the lowest levels of pay will receive a 1.25% increase. This should generate an overall underspend of approximately £100,000.
9. The budget approved in March also included for the first time the income associated with the charging for bulky waste removal. The budget expectation was for income of £54,676, the actual income collected is £15,752. In preparing a budget for this income estimates were made based using assumed numbers of collections, based on past experience. The actual collections being requested is far lower than anticipated. Staffing levels are being adjusted to reduce costs to compensate for this.
10. When the budget was set certain budgets had seen significant change due to the economic downturn. The performance of these budgets in the first quarter is as follows:
- Planning Fees - The income is approximately 47% lower than the original budget. Planning staff are aware of an increase in developer enquiries, which, if they lead to applications, will go some way to closing this gap. This will continue to be monitored and the Outturn budget will need to be amended to reflect the decrease in income.
  - Land Charges Fees – Revisions to prices and additional marketing have seen the income for the 2 quarters match the reduced expenditure, due to lower staffing costs.

- BCN trading performance – This is accounted for by Chesterfield BC then charged to Bolsover DC at the year end. The income is currently lower than expected. The actual net effect to Bolsover DC will not be known until the year-end. Changes to the working conditions of staff and vacancies have gone some way to match the expenditure to the lower income and activity levels.
  - Restaurant – Members at Executive, Scrutiny and Council have reviewed this and approved the closure of the restaurant service by the end of the calendar year.
11. Overall, the variances shown at Appendix 1 indicate an overspend of £150,000 at the end of the second quarter. If this level of overspend were to continue it would increase to almost £270,000 by the end of the financial year. When matched to the overall spend of the Council it would indicate the budget will not be exceeded. Offices will be working with budget managers to seek wherever possible that Services spend within the limit of their budget or that any changes to the budget are reported to Members for consideration of the options.
12. Officers are currently involved in monitoring a number of items that may impact on the budget during the following 2 quarters:
- Land Charges – The Information Commissioner’s Office (ICO) has recently issued guidance relating to the treatment of property search data. The ICO’s view is that the majority of property search data is environmental data and that local authorities should not be charging for this data. The total 2009/10 budgeted income for all land charges fees is £73,000; the actual income received to the end of the second quarter is £38,467. The Local Government Association is currently challenging this guidance, and is seeking legal advice. Future reports will update Members. There will be changes to the income levels in the 4<sup>th</sup> quarter as there has been an announcement that statutory personal search fee will increase from £11 to £22 from 1<sup>st</sup> Jan 2010, which could equate to an approximately £3,000 based on the previous quarter’s activity level.
  - Concessionary Travel costs – the revised cost share has been the subject of a further challenge by Chesterfield BC based on the latest Counsel opinion they sought. Derbyshire CC has a Counsel opinion that supports the current arrangements. Since the end of the quarter, invoices for 2009/10 have been received and are slightly below the budget.

### **Housing Revenue Account (HRA)**

13. As with the General Fund, the Housing Revenue Account’s budgets have been subject to officers monitoring financial activity against the approved income and expenditure budgets.

14. The first 6 months activities of the Council have generated the following financial transactions:

Description of Financial Performance	£'000
Payments to employees	1,497
Invoices paid	951
Rent collected	(7,921)
Fees and charges collected	(2)
Utility bills paid	146

15. The table below compares the actual expenditure to the half year budget for the main categories of controllable expenditure.

	Budget	Actual	Variance
	£'000	£'000	£'000
Employees	1,641	1,498	143
Premises	1,009	652	357
Transport	34	37	(3)
Supplies & Services	788	455	333
<b>Total</b>	<b>3,472</b>	<b>2,642</b>	<b>830</b>

This table therefore shows Employees costs are underspend but this level of underspend will be addressed in part when the pay award is processed in October back to April. There should be an overall underspend as the budget was based on a higher percentage (see the paragraph later in the report).

16. As a result of the previously reported correct to the Rents budget a separate piece of work has been underway to review the HRA budgets and the impact on the working balance going forward to 2011/12.
17. This work indicates that the HRA can be corrected as no commitments have been made against this income the changes are limited at this time to:
- The rent income budget is reduced to the correct value
  - The Revenue contribution to capital be reduced by £100,000 in 2010/11 and by £200,000 in 2011/12 onwards from its current level of £700,000
  - Any gains from reductions in voids can be used to supplement reduced contributions to capital
  - This will bring the Working Balance back to the £1m level with the 3 years of the Medium Term Financial Plan.

18. Appendix 2 details other variances on the HRA. The most significant variance is Repairs & Maintenance – Voids subcontractors, officers are seeking to ensure appropriate controls are in place to prevent an overspend at the year end.
19. The HRA budgets also reflect an anticipated pay award to employees of 1.75% from 1<sup>st</sup> April 2009. As stated for the General Fund, the unions have now agreed the pay award and this should result in a small underspend against the budget for the year.

### **Capital expenditure**

20. As in previous years spend on the capital programme tends to be lower in the first half of the year, as illustrated in the table below:

	£
Original budget	9,518,680
Changes in year	2,133,983
<b>Latest Budget</b>	<b>11,652,663</b>
Spend to date	4,799,986
<b>Underspend</b>	<b>6,852,677</b>

21. Expenditure is monitored on a monthly basis by an officer group. A capital programme monitoring report was produced for the meeting on 2<sup>nd</sup> October which is enclosed with this report as Appendix 3. The main items for Members to be aware of are:
  - In order to prepare the Statement of Accounts capital expenditure is maintained on an accruals basis. The report at Appendix 3 continues to show some of the reversals of the accruals and retentions as credits until sufficient expenditure is incurred to clear them to zero.
  - Extra external funding for scheme C138 had not been input as there had been a delay in the project officer informing finance of its source.
  - Vehicles are financed by operating lease and the budget amounts are only estimates of the capital cost of the vehicle.
22. Capital expenditure is funded from various sources including major repairs allowance, capital receipts, operating leases and private sector contributions. Capital receipts generated in the current financial year are used to fund future years' expenditure. In the second quarter capital receipts have been generated from the following sources:

<b>Property Sales</b>	<b>2<sup>nd</sup> Quarter</b>	<b>Year to date</b>
	<b>£</b>	<b>£</b>
Council house Right to Buy sales	60,500	172,880
Other asset sales	208,115	212,890

23. The Council has a programme of asset sales. There have not been any changes to this in the second quarter.
24. Overall, the Capital Expenditure in the second quarter is within budget and will be monitored during the remaining periods of the financial year

### **Treasury Management**

25. The Council has budgets associated with its investments and borrowing activities.

26. Investments during the period are summarised in the table below:

	<b>2<sup>nd</sup> Quarter</b>	<b>Year to date</b>
	<b>£m</b>	<b>£m</b>
Opening balance	17,118	16,810
Investments made in the period	4,000	9,518
Investments maturing during the period	(3,779)	(8,989)
Closing Balance	17,339	17,339

27. The investments have been made in accordance with the Council's Treasury Management Strategy.

28. The performance of these investments is shown below:

	<b>2<sup>nd</sup> Quarter</b>	<b>Year to date</b>
Interest generated	£58,428	£157,261
Average rate of interest	1.61%	2.00%
Bank of England base rate	0.50%	0.50%

29. When compared to the budget the return on investments is expected to under achieve by the end of the year due to the extremely low rates being offered by most institutions. We estimated achieving 2% when preparing the budget for 2009/10. The levels of return on investments will drop during the second half of the year due to investment with an

interest rate of 5.6% maturing during this period. At that point it is the full year budget of £318,320 will not be achieved, an expected outturn will be £213,555 leaving a shortfall of £104,765.

30. The Council's Public Works Loans Board debt has remained at £19.1m during the quarter.
31. Parish Council investments with the Council have increased by £100,381 making the balance £758,559.
32. The Council approves annually Prudential Indicators. Throughout the second quarter there have not been any changes.
33. The Council remains a creditor for its investments in Landsbanki. The latest updates associated with this are:
  - Some of the other Icelandic banks have started to repay part of the investments councils hold with them.
  - The claim has been finalised with the solicitors representing the many councils affected and includes the principal, interest, penalty interest and legal costs amounting to £3,363,572.77.
  - The next significant date for the meeting of the administrators / Local Government Association legal representatives will be November 6<sup>th</sup>.
  - Estimates of the levels of repayment have varied since the guidance was provided for the Statement of Accounts to be compiled. The percentage of the recoverable amount has been revised by CIPFA from 95% to 83%. The Statement of Accounts has not been altered for this change as it was considered not material.
  - The Government have recently confirmed the loan arrangement to Iceland to provide for private investors in Landsbanki (Icesave).

### **Reserves**

34. The table below show the reserves / balances of the Council as at 31<sup>st</sup> March 2009.

	<b>Balance as at 31/03/09</b>	<b>Allocated as at 30/09/09</b>	<b>Anticipated Balance at 31/03/10</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
General Reserve	(685)	155	(530)
Earmarked Reserves	(3,834)	2,710	(1,124)
Capital	(255)	255	0
Insurance	(156)	35	(121)
<b>Total Reserves</b>	<b>(4,930)</b>	<b>3,155</b>	<b>(1,775)</b>



The significant change in Earmarked Reserves reflects the expected use of Area Based Grant for Working Neighbourhood Funds.

	<b>Balance as at 31/03/09</b>	<b>Estimated Balance as at 31/03/10</b>	<b>Anticipated Change in years</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
General Fund Balance	(1,527)	(1,217)	310
HRA Balance	(647)	(537)	110

### **Risk Management**

35. When the budget was approved it was accompanied by details of Revenue and Capital risks. These have been reviewed and updated for Members as part of the Quarterly report, see Appendices 4 and 5. There are no concerns that are not detailed in this report at this time.

### **Collection of Debts**

36. The Council's main income streams are associated with Council Tax, Business Rates (National Non Domestic Rates), Housing Rents and Sundry Debtors.
37. Executive have been receiving monthly updates from the Head of Housing for the current performance in recovering current tenant and former tenant arrears. This will now be quarterly and the next report will reflect the performance up to the end of December.
38. These main income streams are shown in the tables below. The first table shows the percentage of debt recovered that has been raised in this financial year. The Local Performance Indicators record the performance for PPMGs to consider. This is at the end of the second quarter.

<b>Category of Debt</b>	<b>2009/10 Quarter 2</b>	<b>2008/09 Quarter 2</b>	<b>Variance</b>
<b>Debt raised for the year:</b>			
➤ Council Tax	61%	60.8%	+0.2%
➤ Business Rates (NNDR)	62.7%	60.2%	+2.5%
<b>Debt raised during the year</b>			
➤ Sundry Debts	92.0%	90.4%	+1.6%
➤ Rents – current tenants	91.1%	92.47%	-1.37%

39. For each of these categories of debt there is also debt from previous years that was still to be collected at the year end. The performance at the end of the second quarter for the reduction in the debt is shown below.

Category of Debt / LPI	Arrears collected £'000	% collected	Target for the Quarter	Balance £'000
Council Tax (RS 6)	444	34.8%	35.0%	833
Business Rates (NNDR) (RS 7)	305	50.9%	40.0%	295
Sundry Debts (RS 5)	610	61.5%	45.0%	381

	2ndQtr Balance £'000	Qtr 2 '08 Balance £'000	Change £'000
Rents			
– current tenants	640	744	(104)
– former tenants	552	No data available	N/A

### **Suspense accounts**

40. Not all payments to the Council are clearly identifiable to the debt it should be associated with. To accommodate this, the Council has a number of suspense accounts. At the end of this quarter the balance on the General Ledger suspense accounts is £2,441.85.

### **Write-offs**

41. The debts due to the Council are reviewed on a regular basis to ensure the balance collectable is achievable based on information gathered by the process of seeking to collect the various debts.
42. The Council manages this by delegation to the Director of Resources for those below £1,000 and by Executive approval for items over £1,000.
43. The write-offs / (-) write-on during the quarter are shown below:

<b>Category of Debt</b>	<b>2<sup>nd</sup> Quarter</b>	<b>Year to date</b>
	<b>£</b>	<b>£</b>
<b>Council Tax</b>		
➤ Less than £1,000	8,038	7,928
➤ Greater than £1,000	9,454	14,598
<b>Business Rates (NDR)</b>		
➤ Less than £1,000	5,131	5,701
➤ Greater than £1,000	37,035	88,207
<b>Sundry Debts</b>		
➤ Less than £1,000	0	45
➤ Greater than £1,000	43,591	59,280
<b>Rents</b>	0	0
<b>Former Tenants' Arrears</b>	0	0

### **Reconciliations**

44. For the General Ledger to generate reliable financial information it is vital that it is reconciled to various IT and Revenue systems. This results in over 50 income and expenditure reconciliations being completed each month. These reconciliations have proven to be reliable for all systems and also vital to the preparation of the Council's year end Statement of Accounts.

### **Internal Audit**

45. The Internal Audit Consortium reports on a quarterly basis to the Audit Committee on the work done during that period. The work done between July and September were reported to the meeting on September 22nd.
46. During this period the Consortium was fully staffed with minimal levels of sickness.

### **Efficiencies**

47. The National Indicator for Efficiencies (NI 179) requires that the Council set a target annually for each financial year based on its cumulative work to date against the 3% cashable savings target.
48. The end of year outturn for 2008/09 has been calculated and amounts to £709,000. This was detailed to Members in quarter 1.
49. The target for 2009/10 has been arrived at by considering:
- Efficiencies from 2008/09 to ensure they will continue and the level of achievement
  - Efficiencies reported to Members in the recent restructure reports

- The budgeted vacancy savings for the year
  - Other initiatives officers have in progress that form part of the developing efficiency strategy.
50. The cumulative value of these items is a target of £862,000 which when added to the value for 2008/09 generates £1.571m.
51. For 2009/10 the Council has an efficiency log that is reported on a regular basis to SMT. Reports to Council will continue to identify cashable gains during the year. A detailed Efficiency strategy will be developed with Members as the budget for 2010/11 is developed, taking into account the work done by the PPMGs.

### **Vacancy Saving**

52. When the Council approved the budget in March 2009 for 2009/10 included within it was a budgeted saving of £355,000 from General Fund vacancies and £100,000 from the HRA, totalling £455,000 for the Council overall. The second quarter's overall vacancy savings (net of additional overtime and agency staff) is a saving of over £300,000. This would indicate the savings will be achieved. Work is underway to evaluate any potential overlap between efficiencies and vacancy savings.

### **Creditors Performance**

53. The Percentage of invoices for commercial goods and services paid by the Council within 30 days of receipt or within the agreed payment terms is monitored on a monthly basis. The following table shows performance of the creditors function for the first 2 quarters of the year:

	<b>2009/10 Quarter 2 Actual</b>	<b>Target for Quarter 2</b>	<b>Variance</b>
Within 30 days (FIN 008)	97.5%	95%	2.5%
Within 20 days	91.5%	-	-

In order to assist businesses in the current economic climate we are no longer seek to maximise the Council's cash flow benefits by ensuring payment is made to invoice terms but are paying them promptly they arrive in Financial Services. This is the second performance indicator shown on the table above.

### **IMPLICATIONS**

- Financial: Included within the report. This will be reported to Scrutiny on 10<sup>th</sup> November 2009
- Legal: None

Human Resources: None

**RECOMMENDATION(S)**

1. That the second quarter performance on budgeted income and expenditure for the General Fund, Housing Revenue Account and Capital Programme be noted.
2. That the second quarter review of the main areas covered by the Budget Risk Assessment be noted.
3. That the report on the Treasury Management activities and Prudential Indicators be received.
4. Changes to the HRA budgets be reported to the next Council meeting.

**REASON FOR DECISION TO BE GIVEN IN ACCORDANCE WITH THE CONSTITUTION**

The Executive can evidence robust consideration of the details associated with the financial performance of the Council.

ATTACHMENTS:            Y/N  
FILE REFERENCE:  
SOURCE DOCUMENT: